

United Bank of Albania Sh.a.

Financial statements as of 31 December 2006

together with independent auditors' report thereon

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INDEPENDENT AUDITORS' REPORT

To the shareholders of United Bank of Albania Sh. a.:

We have audited the accompanying financial statements of United Bank of Albania Sh.a, which comprise the balance sheet as at 31 December 2006, and the statement of income and expenditure, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as at 31 December 2005 were audited by other auditor, whose report dated 30 March 2006, expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Article 38 of the banking Law of the Republic of Albania. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of United Bank of Albania Sh.a as of 31 December 2006, and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with Article 38 of the Banking Law of the Republic of Albania.

February 9, 2007

United Bank of Albania Sh.a.
Balance Sheet as at 31 December 2006

(Amounts in Lek, unless otherwise stated)

		31 December 2006	31 December 2005
Assets	Notes		
Cash and balances with Central Bank	3	669,084,325	664,864,624
Due from banks and other financial institutions	4	1,640,595,323	1,475,333,506
Due from financing activities	5	1,863,989,354	1,633,502,731
Investment securities	6	96,810,332	107,921,965
Fixed assets	7	285,128,606	118,175,402
Other assets	8	79,823,880	41,338,263
Total assets		<u>4,635,431,820</u>	<u>4,041,136,491</u>
Liabilities and shareholders' equity			
Liabilities			
Due to banks and other financial institutions	9	124,535,026	108,458,483
Customers' accounts	10	3,184,038,031	2,527,829,838
Statistical provision	5	20,076,958	16,196,558
Other liabilities	11	51,513,601	44,176,968
Total liabilities		<u>3,380,163,616</u>	<u>2,696,661,847</u>
Shareholders' equity			
Share capital	12	1,743,903,789	1,659,603,789
Translation reserve	12	(566,474,453)	(454,348,064)
Statutory reserve	12	54,895,938	29,841,967
Retained earnings		22,942,930	109,376,952
Total shareholders' equity		<u>1,255,268,204</u>	<u>1,344,474,644</u>
Total liabilities and shareholders' equity		<u>4,635,431,820</u>	<u>4,041,136,491</u>
Commitments and contingent liabilities	19		
Funds under management	20		

United Bank of Albania Sh.a.
Statement of income and expenditures for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

		2006	2005
Revenue			
Income from banks and financial institutions		85,291,434	65,816,636
Income from financing activity		179,494,098	136,766,277
Income from securities		3,587,497	3,757,717
Total revenue		268,373,029	206,340,630
Customers' share on profit		(120,439,930)	(65,443,853)
Net revenue		147,933,099	140,896,777
Other revenue			
Fee and commission income, net		31,739,078	21,773,113
Foreign exchange gain, net	16	4,844,563	46,598,849
Other income	13	31,987,321	97,939,623
		68,570,962	166,311,585
Total net revenue		216,504,061	307,208,362
Provision for loan losses	5	(21,248,185)	(4,049,938)
Statistical provision	5	(3,341,829)	(8,231,274)
Depreciation	7	(10,794,324)	(10,659,493)
Personnel expenses	14	(74,257,641)	(65,991,350)
Rent	19	(14,675,889)	(14,941,551)
Other administrative expenses	15	(62,126,441)	(58,168,450)
Total operating expenses		(186,444,309)	(162,042,056)
Net income before taxes		30,059,752	145,166,306
Tax on income	17	(7,139,803)	(35,789,362)
Net profit for the year		22,919,949	109,376,944

United Bank of Albania Sh.a.
Statement of cash flows for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

		2006	2005
Cash flows from operating activities	Notes		
Net profit before tax		30,059,752	145,166,306
Adjustments for non cash items:			
Depreciation	7	10,794,324	10,659,493
Depreciation of expenses to be amortised		1,879,709	2,060,401
Provision for loans and statistical provision		24,590,014	12,281,212
Gain on sale of investment property		-	(86,646,353)
Change in translation reserve on capital		(112,126,411)	81,137,404
Interest income		(264,785,532)	(202,582,912)
Interest expense		120,439,930	65,443,853
		<u>(189,148,214)</u>	<u>27,519,404</u>
Changes in operating assets and liabilities:			
Increase in due from financing activities		(252,110,791)	(823,211,742)
(Increase) decrease in other assets		(20,405,888)	15,724,396
Decrease (increase) in due from banks		489,099	(9,505,986)
Increase in customer accounts		656,208,193	732,552,947
Increase (decrease) in other liabilities		4,285,347	(99,468,106)
		<u>388,465,960</u>	<u>(183,908,491)</u>
Interest received		274,600,845	183,626,035
Interest paid		(117,388,644)	(64,850,875)
Income tax paid		(36,000,000)	(63,957,245)
Net cash provided by (used in) operating activities		<u>320,529,947</u>	<u>(101,571,172)</u>
Cash flows from investing activities			
Proceeds from sale of investment property		-	116,004,896
Change in investment securities	6	11,111,633	1,217,359
Purchases of fixed assets	7	(177,747,530)	(80,886,461)
Net cash (used in) provided by investing activities		<u>(166,635,897)</u>	<u>36,335,794</u>
Cash flows from financing activities			
Increase (decrease) in due to banks		16,076,566	(4,019,229)
Net cash provided by (used in) financing activities		<u>16,076,566</u>	<u>(4,019,229)</u>
Net increase (decrease) in cash and cash equivalent		169,970,616	(69,254,607)
Cash and cash equivalents at beginning of the year	18	<u>1,252,294,115</u>	<u>1,321,548,722</u>
Cash and cash equivalents at the end of the year	18	<u>1,422,264,731</u>	<u>1,252,294,115</u>

United Bank of Albania Sh.a.
Statement of changes in equity for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

	Share capital	Translation reserve	Statutory reserve	Retained earnings	Total
Balance at 31 December 2004	1,493,600,000	(535,485,468)	953,365	194,892,391	1,153,960,288
Transfer to Reserve	-	-	28,888,602	(28,888,602)	-
Change in translation reserve	-	81,137,404	-	-	81,137,404
Allocation of profit to paid in capital	166,003,789	-	-	(166,003,789)	-
Profit for the year	-	-	-	109,376,952	109,376,952
Balance at 31 December 2005	1,659,603,789	(454,348,064)	29,841,967	109,376,952	1,344,474,644
Transfer to reserves	-	-	25,053,971	(25,053,971)	-
Change in translation reserve	-	(112,126,389)	-	-	(112,126,389)
Allocation of profit to paid in capital	84,300,000	-	-	(84,300,000)	-
Profit for the year	-	-	-	22,919,949	22,919,949
Balance at 31 December 2006	1,743,903,789	(566,474,453)	54,895,938	22,942,930	1,255,268,204

The accompanying notes form an integral part of these financial statements.

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

1. General

The United Bank of Albania (hereinafter “the Bank”) is based in Tirana and carries out banking operations in accordance with Islamic laws and principles. The Bank’s activities include acting as manager, on a trustee basis, of funds invested in accordance with Islamic laws and principles.

The Bank was incorporated in Albania as a joint venture between the National Commercial Bank of Albania (“NCB”), a state owned bank, which had a 40% share, and a group of investors composed mainly of:

Shamil Bank	20%
Islamic Development Bank Jedah	15%
Dallah Albaraka Holding Co	10%
Other investors	15%

During 2000, NCB was privatized. After the privatization, the Albanian Ministry of Finance retained NCB’s shareholding in the Bank.

On 5 November 1992, the Bank received approval from the Bank of Albania for carrying out banking operations. Formalities in respect of the registration of procedures were completed on 1 July 1994, which is also the incorporation date of the Bank. The Bank is subject to supervision by the Bank of Albania.

On 11 January 1999, according to the decision of the Bank of Albania No.165, dated 11 December 1998, the Bank obtained the license, “For continuing the banking activity in the Republic of Albania”, in accordance with Law No.8365, dated 2 July 1998, “On banks in the Republic of Albania”. At year end, the Bank employs 51 staff, including 3 senior expatriate staff.

2. Significant accounting policies

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with Article 38 of the Banking Law of the Republic of Albania Law, No. 8365, dated 2 July 1998.

The financial statements are presented in Albanian Lek and are prepared on the historic cost basis.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with the Central Bank (except for the statutory reserve) and balances with banks and other financial institutions that mature within one month.

(c) Due from financing activities (Murabaha)

Murabaha and other receivables are stated in the balance sheet net of a provision for specific loan losses. Murabaha and other receivable are similar to loans and advances to customers.

Specific provisions are created pursuant to regulation No. 13 of the Bank of Albania “On Credit Risk Management” (the “Credit Regulation”) approved by the Supervisory Board on 14 July 2004. The regulation requires the Bank to classify exposures into six risk categories.

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

2. Significant accounting policies (continued)

(c) Due from financing activities (Murabaha) (continued)

For each risk category, the following minimum rates of specific provisions are applied after deducting the appropriate collateral offset allowed under the Credit Regulation:

<i>Type of loans</i>	<i>Days in arrears</i>	<i>Loss Provision</i>
Standard	0 days	1%
Past Due	0-30 days	1%
Special Mention	31-90 days	5%
Substandard	91-180 days	20%
Doubtful	181-365 days	50%
Loss	Over 365 days	100%

Loans and advances to customers and financial institutions are reported net of provisions for financing activities that are classified as substandard, doubtful and loss. Provisions created for possible losses on financing activities that are classified as standard and special mention are classified as statistical provisions on the liabilities side of the balance sheet.

(d) Investment securities

Held-to-maturity securities are securities that have been acquired with the intention of holding on a long term basis, in principal until maturity. These securities are included in the balance sheet at cost less any provision for permanent diminution in value. The bonds are booked at the purchase price, with profit share accrued for the coupons to be paid. Any discount obtained on the nominal value at the moment of the purchase is accrued to the payment date of the securities principal.

Available-for-sale assets securities are held for short term and medium term investment purposes and are initially reported at its acquisition price. Subsequently these assets are recorded at net of provision for any possible impairment as compared to the market value. Investment portfolio funds with Islamic financial institutions are valued at cost.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a declining basis over the estimated useful lives of the assets and at rates specified by the Albanian tax authorities as follows:

Motor vehicles	20%
Office equipment	20%
Computers and electronic equipment	25%
Furniture and fixtures	20%

Leasehold improvements relate to expenditures on head office and branch renovations. According to a new regulation of the Bank of Albania, leasehold improvements are recorded under other assets under "Expenses to be amortized over years". These are depreciated over the period of the lease.

2. Significant accounting policies (continued)

(f) Customers' accounts

Customers' accounts principally include special investment deposits, where the depositors instruct the Bank to invest the funds in specific investments or on predetermined terms. These deposits are invested by the Bank in its own name under the terms of specific mudaraba and murabaha contracts entered into with the individuals and financial institutions. These special investment deposits, which are classified within customers' accounts, share the direct profit or losses of their respective investments once realised and do not, otherwise, share the Bank's profit or loss.

(g) Revenue recognition

Income from banks and other financial institutions:

Income from banks and other financial institutions is recognised as it accrues.

Murabaha contracts:

Income from murabaha contracts is recognised in the statement of income and expenditures on an accrual basis.

Fee and commission income:

Fee and commission income arises on financial services provided by the Bank including cash management services, brokerage services and investment advice. Fee and commission income is recognised when the related service is performed.

(h) Customers' share on profit

The Bank's profit is allocated to the depositors and shareholders in accordance with the Islamic Sharia principles using the main pool method. Payments are made to the depositors and charged to the account of customers' share in profits in accordance with the contractual maturities of the investments. In line with the Islamic nature, the Bank is sharing the profit earned on the deposits of the Bank as Mudarib Fee. As a result of this, the Bank is deducting a fixed proportion of the amount distributed to the depositors which is then credited as the income of the Bank.

(i) Taxation

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2006, tax on profit is calculated as 20% of taxable income (2005: 23%). Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under Albanian taxation laws.

(j) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of income and expenditures. Non-monetary assets and liabilities denominated in foreign currencies are translated to measurement currency at foreign exchange rates at the dates of transactions.

United Bank of Albania Sh.a.

Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

2. Significant accounting policies (continued)

(j) Foreign currency transactions (continued)

Share capital is treated as a monetary item and revalued in accordance with the policy noted above. According to BoA rules and regulations, capital in foreign currency should be accounted for at the exchange rate on the date of the transaction on the face of the balance sheet and a “translation reserve” created in equity that represents the difference between the year end and historical LEK BoA fixed rate used to record the foreign currency share capital.

The applicable rate of exchange rates (Lek to foreign currency unit) for the principal currencies as at 31 December 2006 and 2005 were as follows:

	31 December 2006	31 December 2005
USD	94.14	103.58
EUR	123.85	122.58
GBP	184.65	178.65

(k) Use of estimates

The preparation of the financial statements in conformity with the Bank of Albania Regulations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

(l) Corresponding figures

Certain corresponding figures have been reclassified as below in order to conform to the current year financial statements presentation.

i) Presentation of Statement of income and expenditures has been reclassified in order to conform to the BoA regulations.

ii) In cash flow statement, during 2006 change in investment securities has been reclassified as “investment activity” as from non-cash item during 2005. Also during 2006 “due from banks” has been reclassified as “change in operating activity” as from “change in financing activity” during 2005.

United Bank of Albania Sh.a.**Notes to the financial statements for the year ended 31 December 2006***(Amounts in Lek unless otherwise stated)***3. Cash and balances with Central Bank**

	31 December 2006	31 December 2005
Cash on hand	237,945,136	247,566,983
Balance with Central Bank:		
Current Account	116,310,836	180,096,226
Statutory Reserve	314,828,353	237,201,415
	<u>431,139,189</u>	<u>417,297,641</u>
	<u>669,084,325</u>	<u>664,864,624</u>

In accordance with the Bank of Albania's requirements relating to the statutory reserve, the Bank should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account. The statutory reserve with the Central Bank is not available for the Bank's day-to-day operations.

4. Due from banks and other financial institutions

	31 December 2006	31 December 2005
a) By type:		
Call/current accounts	307,734,485	203,942,624
Term deposits	1,332,860,838	1,271,390,882
	<u>1,640,595,323</u>	<u>1,475,333,506</u>
b) By geographical distribution:		
Resident	2,390,279	28,016,904
Non-resident	1,638,205,045	1,447,316,602
	<u>1,640,595,324</u>	<u>1,475,333,506</u>
c) By maturity:		
Less than one month	1,068,008,759	824,630,906
More than one and less than three months	470,700,000	132,802,600
More than three and less than six months	-	517,900,000
More than six months and less than 1 year	101,886,564	-
	<u>1,640,595,323</u>	<u>1,475,333,506</u>

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

5. Due from financing activities

Amounts due from financing represents credits extended under the Murahaba method of transacting finance. The Murabaha balance as of 31 December 2006 and 2005 are detailed as follows:

	31 December 2006	31 December 2005
Short term investments	448,054,389	672,497,257
Medium term investments	1,423,968,677	948,220,744
	<u>1,872,023,066</u>	<u>1,620,718,001</u>
Accrued interest	17,231,463	18,146,017
Provisions on substandard, doubtful and loss loans	(25,265,175)	(5,361,287)
	<u>1,863,989,354</u>	<u>1,633,502,731</u>

Short term investments represent credits with a maturity of 12 months and medium term investments represent credits with a maturity of up to 5 years.

Movements in the provision for substandard, doubtful and loss financing activities are as follows:

	2006	2005
Balance at 1 January	5,361,287	433,334
Charge for the year, net	21,248,185	4,049,938
Foreign exchange effects	(1,344,297)	878,015
	<u>25,265,175</u>	<u>5,361,287</u>

Under BoA Regulations, provisions for standard and special mention loans are disclosed separately under liabilities. Movements in the provision for standard and special mention financing activities are as follows:

	2006	2005
Balance at 1 January	16,196,558	8,424,759
Charge for the year, net	3,341,829	8,231,274
Foreign exchange effects	538,571	(459,475)
Balance at 31 December	<u>20,076,958</u>	<u>16,196,558</u>

As at 31 December 2006 and 2005 due from financing activities can be detailed as follows:

Category	31 December 2006			31 December 2005		
	Individuals	Enterprises	Total	Individuals	Enterprises	Total
Standard	444,986,413	1,318,409,356	1,763,395,769	348,410,810	1,254,225,341	1,602,636,151
Special Mention	10,126,275	33,018,801	43,145,076	-	-	-
Substandard	20,771,621	29,500,000	50,271,621	-	16,026,294	16,026,294
Doubtful	-	-	-	-	2,055,556	2,055,556
Lost	-	15,210,600	15,210,600	-	-	-
Provisions for substandard loans	(4,154,326)	(21,110,849)	(25,265,175)	-	(5,361,287)	(5,361,287)
	<u>471,729,983</u>	<u>1,375,027,908</u>	<u>1,846,757,891</u>	<u>348,410,810</u>	<u>1,266,945,904</u>	<u>1,615,356,714</u>

United Bank of Albania Sh.a.

Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

6. Investment securities

	31 December 2006	31 December 2005
Debt security-held to maturity	95,487,351	105,010,677
Equity investment-available for sale	1,322,981	2,911,288
	<u>96,810,332</u>	<u>107,921,965</u>

During 2003, the Bank purchased a security bond issued by the Islamic Development Bank with a nominal value of USD 1,000,000 and maturing on 12 August 2008. Further bond details at 31 December 2006 and 2005 are described as below:

	31 December 2006		31 December 2005	
	USD	Lek	USD	Lek
Purchase price	997,500	93,904,650	997,500	103,321,050
Accrued interest	15,104	1,421,905	15,104	1,564,488
Discount	1,708	160,797	1,208	125,139
	<u>1,014,312</u>	<u>95,487,352</u>	<u>1,013,812</u>	<u>105,010,677</u>

The equity investment represents an investment of 5% in the Albanian International Investment and Development Co (“Alintid”), a holding company based in Jeddah.

	31 December 2006	31 December 2005
Equity investment	5,291,923	5,207,603
Provision for devaluation	(3,968,942)	(2,911,288)
Foreign exchange effect	-	614,973
	<u>1,322,981</u>	<u>2,911,288</u>

During 2004, Alintid reduced its paid-up capital by 27% and paid the Bank the amount of USD 21,287 in proportion with the Bank’s investment in Alitintid. During 2005 and 2006, no payments are done by Alintid to the Bank.

Movements in the provision for devaluation are as follows:

	2006	2005
Balance at 1 January	(2,911,288)	(1,076,940)
Charge for the year, net	(1,362,470)	(1,673,384)
Foreign exchange effects	304,816	(160,964)
Balance at 31 December	<u>(3,968,942)</u>	<u>(2,911,288)</u>

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

7. Fixed assets

	Furniture & fixtures	Office equipment	Computer equipment	Vehicles	Building in process	Total
<i>Cost</i>						
At 1 January 2006	25,239,245	42,900,679	48,938,614	13,988,360	73,955,969	205,022,867
Additions	901,010	5,331,990	1,808,627	-	170,005,769	178,047,396
Disposals	-	(304,950)	-	-	-	(304,950)
At 31 December 2006	26,140,255	47,927,719	50,747,241	13,988,360	243,961,738	382,765,313
<i>Accumulated Depreciation</i>						
At 1 January 2006	(19,680,027)	(28,705,308)	(33,677,950)	(4,784,180)	-	(86,847,465)
Charge for the year	(1,216,166)	(3,797,261)	(3,984,800)	(1,796,098)	-	(10,794,325)
Disposals	-	5,083	-	-	-	5,083
At 31 December 2006	(20,896,193)	(32,497,486)	(37,662,750)	(6,580,278)	-	(97,636,707)
<i>Net book value</i>						
At 31 December 2006	5,244,062	15,430,233	13,084,491	7,408,082	243,961,738	285,128,606
At 31 December 2005	5,559,218	14,195,371	15,260,644	9,204,180	73,955,969	118,175,402

Building in process represents the new premises for the Bank's Head Office. During April 2005, the Bank has signed an undertaking contract with Teknoprojekt Shpk for purchasing of new premises of the Bank's Head Office in Tirana. According to the contract the Bank has paid the first instalment amounting to Lek 73,955,969 during 2005. In 2006, after the preliminary registration of the building, the Bank has paid second instalment and on December 2006 90% of value of additional contract. The total amount paid during year 2006 is Lek 170,005,769.

8. Other assets

	31 December 2006	31 December 2005
Expenses to be amortized over years, net	2,916,937	4,130,022
Accrued income	2,749,946	11,650,704
Prepaid expenses	4,763,214	3,373,387
Tax on income (see note 17)	29,070,835	210,638
Other	40,322,948	21,973,512
	79,823,880	41,338,263

Other includes the estimation relating to loans to customers rescheduling of amortization as per effective interest rate booked by the Bank by the year-end amounting Lek 35,624,848 (2005: Lek 18,814,526).

9. Due to banks and other financial institutions

	31 December 2006	31 December 2005
Current accounts	126,765	222,584
Term deposits	124,408,261	108,235,899
	124,535,026	108,458,483

At 31 December 2006 and 2005, term deposits represent deposits of Credit Bank of Albania.

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

10. Customers' accounts

	31 December 2006	31 December 2005
Current accounts	854,095,309	819,509,261
Investment deposits	2,329,942,722	1,708,320,577
	<u>3,184,038,031</u>	<u>2,527,829,838</u>

Customers' accounts by currencies are as follows:

	31 December 2006	31 December 2005
Current accounts:		
In USD	361,239,832	323,762,296
In ALL	284,340,911	216,774,527
In EUR	199,169,140	243,218,663
In GBP	9,345,426	35,753,775
	<u>854,095,309</u>	<u>819,509,261</u>
Investment deposits:		
In USD	387,979,981	449,965,711
In EUR	335,970,968	255,829,308
In ALL	1,605,991,773	1,002,525,558
	<u>2,329,942,722</u>	<u>1,708,320,577</u>

11. Other liabilities

	31 December 2006	31 December 2005
Remittances and cash guarantees received from customers	27,853,094	18,137,970
Accounts payable	15,491,660	18,346,888
Accrued expenses	5,122,827	4,591,254
Provision fund	3,046,020	3,100,856
	<u>51,513,601</u>	<u>44,176,968</u>

Provision fund mainly includes the fund created by a decision of the Board of Directors for Expatriate Staff as post service gratuity in case that they cease working with the Bank.

12. Shareholders' equity

Paid up capital:

The total authorized number of shares at 31 December 2004 was 100,000 shares (2003: 100,000 shares) with a par value of US Dollar 100 per share. All shares are fully paid. Shareholders' funds are recognized in these financial statements using the historical rate of exchange of 1 USD vs. 149.36 Lek (2003: 132.5 Lek). The change in 2004 was performed to comply with the Bank of Albania's recommendation to use the historical rate of exchange at the date the latest transaction with share capital.

During 2005, by decision of the Bank's Shareholders Assembly dated 23 June 2005, the net accumulated profit as at 31 December 2004 after deducting the required reserves (see below), amounting USD 1,635,989 or equivalent to Lek 166,003,789, was allocated to paid-in-capital to the existing shareholders in proportion to their existing shares. The number of shares increased to 116,360 with a par value of US Dollar 100 per share. The rate of exchange on the date of the transaction was 1 USD: 101.47 Lek.

As at 31 December 2005 the paid up capital of the Bank amounts to USD 11,635,989 equivalent to LEK 1,659,603 thousand.

During 2006, by decision of the Bank's Shareholders Assembly dated 8 June 2006, registered by court decision No. 4316/10 dt 13/07/2006 the net accumulated profit as at 31 December 2005 after deducting the required reserves (see below), amounting USD 871,227 or equivalent to Lek 84,300,000 was allocated to paid-in-capital to the existing shareholders in proportion to their existing shares. The number of shares increased to 125,072 with a par value of US Dollar 100 per share. The rate of exchange on the date of the transaction was 1 USD: 96.76 Lek.

As at 31 December 2006 the paid up capital of the Bank amounts to USD 12,507,216 equivalent to LEK 1,743,903 thousand

Statutory reserve:

Other reserves are comprised of LEK 54,895,938.

- According to Bank of Albania decision no. 51 dated 22 April 1999, article 8, the Bank is allowed to increase the reserves through appropriation of net profits. The reserves are calculated on an annual basis at 20% of after tax profit and should amount to at least 1.25% of the total bank assets.
- As per Law No. 7638 dated 19/11/1992 article 213 on "Commercial Company" 5% of net profit are to be registered as legal reserve.
- Based on the Bank's Statute, Article 52, Paragraph 1(a), 10% of net income to be register as statutory reserve

Based on the above decision of the Shareholders Assembly, during 2006 all the reserves were allocated an amount of Lek 25,053,971 from the net profit of 2005.

Translation reserve:

The translation reserve arises according to the Bank of Albania's regulations which require the paid in capital and other reserves of the Bank denominated in foreign currency to be converted into Lek as at the reporting date. The resulting difference is recorded in equity as a translation reserve.

United Bank of Albania Sh.a.**Notes to the financial statements for the year ended 31 December 2006***(Amounts in Lek unless otherwise stated)***13. Other income**

Other income includes mudarib fee being the Bank's share on "Customers share on profit" under Islamic Banking Rules (refer note 2 (h)). For 2005 other income includes also the gain realized by the Bank on sale of investment property amounting to LEK 86,646,353. The gain is net of legal fees and taxes related to these transactions.

14. Personnel expenses

	2006	2005
Expatriate staff	25,309,355	16,754,650
Local employee salaries	39,756,408	36,376,600
Social insurance	8,864,476	7,938,018
Other	327,402	4,922,082
	<u>74,257,641</u>	<u>65,991,350</u>

15. Other administrative expenses

	2006	2005
Office expenses	36,246,415	35,733,554
Investment property expenses	-	443,529
Deposit insurance	3,079,096	2,316,516
Board of Directors' expenses	4,930,292	4,140,026
Professional services	5,404,829	3,166,240
Travel and transportation	2,294,836	2,422,532
Advertising and public relations	5,296,543	3,024,044
Depreciation of leasehold improvements	1,879,709	2,060,401
Fees, taxes and duties	193,014	360,050
Other	2,801,707	4,501,558
	<u>62,126,441</u>	<u>58,168,450</u>

16. Foreign exchange gains, net

During 2006, the Bank earned foreign exchange gain partly due to bank exchange transactions and mainly due to revaluation of currencies. The main open position in EUR, rate of exchange of EUR vs. Lek revaluated from 1 EUR to 122,58 Lek at the beginning of the year to 1 EUR to 123.85 Lek at the end of the year.

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

17. Tax on income

The reconciliation between the accounting profit and taxable profit for 2006 and 2005 is composed as follows:

	2006	2005
Accounting profit	30,059,842	145,166,306
Non-deductible expenses	5,639,170	10,439,614
Taxable profit	<u>35,699,012</u>	<u>155,605,920</u>
Tax computed at 20% (2005: 23%)	<u>7,139,803</u>	<u>35,789,362</u>

The tax reconciliation for the year ended 31 December 2006 and 2005 is as follows:

	2006	2005
Balance at 1 January	210,638	(27,957,245)
2004 liability paid during 2005	-	27,957,245
Prepayments during the year	36,000,000	36,000,000
Tax expense	<u>(7,139,803)</u>	<u>(35,789,362)</u>
Balance at 31 December	<u>29,070,835</u>	<u>210,638</u>

Based on Albanian tax regulations, the Bank made a tax prepayment of approximately Lek 36,000,000 (2005: Lek 36,000,000) during 2006 according to the Tax Office's projections.

18. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash on hand (note 3)	237,945,136	247,566,983
Current account balance with Central Bank (note 3)	116,310,836	180,096,226
Due from banks within one month (note 4)	<u>1,068,008,759</u>	<u>824,630,906</u>
	<u>1,422,264,731</u>	<u>1,252,294,115</u>

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

19. Commitments and contingencies

(i) Contingencies by type are as follows:

	31 December 2006	31 December 2005
<i>Assets</i>		
Facilities collateral	2,780,721,202	4,528,161,400
<i>Liabilities</i>		
Un drawn facilities	42,243,451	133,676,015
Letters of credit	39,744,061	17,720,778
Guarantees	25,981,158	18,120,220
	<u>107,968,670</u>	<u>169,517,013</u>

(ii) Contingencies by geographic sector as of 31 December 2006 and 2005 are concentrated within Albania.

Guarantees and letters of credit

Guarantees received from customers include cash collateral, mortgages, inventory and other assets pledged in favour of the bank from its borrowers.

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of credits granted. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2006 will be incurred and thus no provision have been included in these financial statements.

Legal

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2006.

Lease commitments

The Bank has entered into non-cancellable lease commitments for all branches as well as for new branch in Durres, which will be open on year 2007. Such commitments for the years ended 31 December 2006 and 2005 are composed as follows:

	31 December 2006	31 December 2005
Less than one year	18,366,028	8,319,028
Between one and five years	18,166,188	-
	<u>36,532,216</u>	<u>8,319,028</u>

The Bank has rental agreements for Tirana, Shkodra and Fieri Branches. During 2006, Lek 14,675,889 was recognised as an expense in the statement of income and expenditures in respect of lease rentals (2005: Lek 14,941,551).

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

20. Funds under management

	31 December 2006	31 December 2005
Managed funds	<u>2,329,942,722</u>	<u>1,708,320,577</u>

Managed funds represent funds belonging to customers for which the Bank has assumed management responsibility (refer to note 11).

21. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions.

The Bank enters into transactions with its shareholders in the ordinary course of business. The balances of major transactions with related parties are as follows:

	31 December 2006	31 December 2005
Assets:		
Due from Shamil Bank	243,159,272	254,402,155
Investment securities	94,065,447	105,010,677
Due from Dallah Holding subsidiaries	537,313,268	368,485,930
Due from IICG	470,700,000	-
Liabilities:		
Due to customers (on behalf of shareholders)	22,666,976	24,172,505
Current accounts (personnel)	811,990	330,966

The investment security was purchased from IDB and is held by the Gulf International Bank (refer note 6).

The transactions with related parties included in the statement of income and expenditures are as follows:

	2006	2005
Income from banks	72,423,663	56,794,376
Income from securities	3,587,497	3,757,717
Customers' share on profit	819,909	508,273

Related party transactions are conducted on an arm's length basis.

22. Financial risk management

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are discussed below.

United Bank of Albania Sh.a.

Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

22. Financial risk management (continued)

(a) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The following table summarises the Bank's net foreign currency position at 31 December 2006 and 2005.

2006	USD	Lek	Euro	Other	Total
Assets					
Cash and balance with Central Bank	130,422,387	384,428,407	149,792,698	4,440,833	669,084,325
Due from banks and other financial institutions	1,380,659,218	78,752	238,445,753	21,411,600	1,640,595,323
Due from financing activities	439,176,672	1,081,117,542	343,695,140	-	1,863,989,354
Investment securities	96,810,332	-	-	-	96,810,332
Other assets	9,725,972	53,781,003	16,314,121	2,784	79,823,880
Fixed assets	-	285,128,606	-	-	285,128,606
	<u>2,056,794,581</u>	<u>1,804,534,310</u>	<u>748,247,712</u>	<u>25,855,217</u>	<u>4,635,431,820</u>
Liabilities and equity					
Due to banks and other financial institutions	119,060,964	5,474,024	-	39	124,535,027
Customer accounts	749,219,813	1,890,332,684	535,140,107	9,345,426	3,184,038,030
Other liabilities	11,372,171	28,037,206	12,104,223	-	51,513,600
Statistical provision	4,574,434	11,727,165	3,775,360	-	20,076,959
Shareholders' equity	1,743,903,789	(488,635,585)	-	-	1,255,268,204
	<u>2,628,131,171</u>	<u>1,446,935,494</u>	<u>551,019,690</u>	<u>9,345,465</u>	<u>4,635,431,820</u>
Net position at 31 December 2006	<u>(571,336,600)</u>	<u>357,598,816</u>	<u>197,228,022</u>	<u>16,509,752</u>	<u>-</u>
2005					
	USD	Lek	Euro	Other	Total
Assets					
Cash and balance with Central Bank	143,485,891	357,941,309	138,768,539	24,668,885	664,864,624
Due from banks and other financial institutions	1,252,889,395	78,089	198,714,965	23,651,057	1,475,333,506
Due from financing activities	584,435,095	690,980,264	358,087,372	-	1,633,502,731
Investment securities	107,921,965	-	-	-	107,921,965
Other assets	4,237,642	20,893,963	16,206,658	-	41,338,263
Fixed assets	-	118,175,402	-	-	118,175,402
	<u>2,092,969,988</u>	<u>1,188,069,026</u>	<u>711,777,534</u>	<u>48,319,942</u>	<u>4,041,136,491</u>
Liabilities and equity					
Due to banks and other financial institutions	83,379,716	25,078,767	-	-	108,458,483
Customer accounts	773,728,008	1,219,300,084	499,047,971	35,753,775	2,527,829,838
Other liabilities	10,851,978	29,364,913	3,960,077	-	44,176,968
Statistical provision	5,733,234	6,899,525	3,563,799	-	16,196,558
Shareholders' equity	1,659,603,790	(315,129,146)	-	-	1,344,474,644
	<u>2,533,296,726</u>	<u>965,514,143</u>	<u>506,571,847</u>	<u>35,753,775</u>	<u>4,041,136,491</u>
Net position at 31 December 2005	<u>(440,326,738)</u>	<u>222,554,883</u>	<u>205,205,687</u>	<u>12,566,167</u>	<u>-</u>

United Bank of Albania Sh.a.**Notes to the financial statements for the year ended 31 December 2006**

(Amounts in Lek unless otherwise stated)

(b) Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its murabaha financing. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (See Note 19).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

Total on balance sheet economic sector credit risk concentrations are presented in the table below.

	31 December 2006	%	31 December 2005	%
Energy	335,149,520	18	346,894,374	21
Automotive trade	691,385,409	37	534,352,502	33
Domestic trade	123,200,060	7	123,951,744	8
Real estate	230,756,596	12	202,862,435	13
Food industry	-	-	228,236,850	14
Construction	392,097,280	21	171,774,625	11
Bank personnel	10,533,201	1	12,645,471	1
Education, Social Activity	88,901,000	4	-	-
	<u>1,872,023,066</u>	100	<u>1,620,718,001</u>	100

At year-end, 85% of loans are secured by mortgages and the remainder by pledges over machinery, equipment, personal and international bank guarantees (2005: 84.9% of loans were secured by mortgages and the remaining by pledges over machinery, equipment and personal and international bank guarantees).

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

22. Financial risk management (continued)

(c) Liquidity risk (continued)

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

As at 31 December 2006 the twenty largest deposits from individual corporate clients represent 27.11% of total deposits from customers (2005: 27.44 %). The following table shows the Bank's financial assets and liabilities by remaining maturity at 31 December 2006 and 2005:

2006	Up to 1 month	1-3 months	3-6 months	Up to 1 year	1-5 years	Total
Assets						
Cash balance and Central Bank	669,084,325	-	-	-	-	669,084,325
Due from banks and other financial institutions	1,068,008,759	470,700,000	-	101,886,564	-	1,640,595,323
Due from financing activities	229,669,773	317,102,301	164,618,177	234,832,833	917,766,270	1,863,989,354
Investment securities	1,322,981	1,421,905	-	-	94,065,446	96,810,332
Other assets	72,088,831	521,656	2,632,822	373,513	4,207,058	79,823,880
Fixed assets	-	-	-	-	285,128,606	285,128,606
Total	2,040,174,569	789,745,862	166,163,499	338,180,410	1,301,167,480	4,635,431,820
Liabilities and equity						
Due to banks and other financial institutions	119,061,003	-	5,474,023	-	-	124,535,026
Customer accounts	3,153,022,928	-	-	31,015,103	-	3,184,038,031
Other liabilities	51,513,601	-	-	-	-	51,513,601
Statistical provision	3,132,104	3,232,760	1,724,700	2,504,170	9,483,224	20,076,958
Shareholders' equity	22,942,952	-	-	-	1,232,325,252	1,255,268,204
Total	3,349,672,588	3,232,760	7,198,723	33,519,273	1,241,808,476	4,635,431,820
Liquidity gap at 31 December 2006	(1,309,498,019)	786,513,102	158,964,776	304,661,137	59,359,004	-
2005						
	Up to 1 month	1-3 months	3-6 months	Up to 1 year	1-5 years	Total
Assets						
Cash balance and Central Bank	664,864,624	-	-	-	-	664,864,624
Due from banks and other financial institutions	824,630,906	650,702,600	-	-	-	1,475,333,506
Due from financing activities	257,702,294	434,582,474	162,824,466	168,377,794	610,015,703	1,633,502,731
Investment securities	2,911,288	1,564,488	-	-	103,446,189	107,921,965
Other assets	41,338,263	-	-	-	-	41,338,263
Fixed assets	-	-	-	-	118,175,402	118,175,402
Total	1,791,447,375	1,086,849,562	162,824,466	168,377,794	831,637,294	4,041,136,491
Liabilities and equity						
Due to banks and other financial institutions	83,379,716	25,078,767	-	-	-	108,458,483
Customer accounts	2,513,904,278	-	-	-	13,925,560	2,527,829,838
Other liabilities	44,176,968	-	-	-	-	44,176,968
Statistical provision	2,544,036	4,334,790	1,609,150	1,671,989	6,036,593	16,196,558
Shareholders' equity	109,376,944	-	-	-	1,235,097,700	1,344,474,644
Total	2,753,381,942	29,413,557	1,609,150	1,671,989	1,255,059,853	4,041,136,491
Liquidity gap at 31 December 2005	(961,934,567)	1,057,436,005	161,215,316	166,705,805	(423,422,559)	-

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Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

22. Financial risk management (continued)

(d) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

(a) Effective yield information

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2006 and 2005 were as follows:

	Weighted average interest rate (Lek)		Weighted average interest rate (USD)		Weighted average interest rate (EUR)	
	2006	2005	2006	2005	2006	2005
31 December						
Assets						
Due from banks	2.30%	1.36%	5.23%	5.24%	2.83%	1.80%
Due from financing activities	12.26%	12.24%	9.36%	8.63%	8.64%	8.86%
Investment securities	-	-	3.63%	3.63%		-
Liabilities						
Due to banks and other financial institutions	6.72%	6.90%	5.45%	4.48%	0%	0%
Customers accounts	4.41%	4.94%	1.67%	1.19%	1.62%	1.24%

United Bank of Albania Sh.a.
Notes to the financial statements for the year ended 31 December 2006

(Amounts in Lek unless otherwise stated)

22. Financial risk management (continued)

(d) Interest rate risk (continued)

(b) Interest rate repricing analysis

The following table presents the interest rate repricing dates for the Bank's monetary assets and liabilities. Variable-rate assets and liabilities have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

	Up to 1 month	31 December 2006				Over 1 year	Non interest bearing	Total
		1 to 3 months	3 to 6 months	6 to 12 months				
Assets								
Cash and balances with Central Bank	314,828,355	-	-	-	-	354,255,970	669,084,325	
Due from banks and financial institutions	760,274,270	470,700,000	-	101,886,564	-	307,734,489	1,640,595,323	
Due from financing activities	229,669,773	317,102,303	164,618,177	234,832,831	917,766,270	-	1,863,989,354	
Investments securities	-	1,421,905	-	-	94,065,447	1,322,980	96,810,332	
Other assets	-	-	-	-	-	79,823,880	79,823,880	
Fixed assets	-	-	-	-	-	285,128,606	285,128,606	
Total	1,304,772,398	789,224,208	164,618,177	336,719,395	1,011,831,717	1,028,265,925	4,635,431,820	
Liabilities and equity								
Due to banks and FI	118,986,857	-	5,421,405	-	-	126,764	124,535,026	
Customer accounts	2,298,927,619	-	-	31,015,103	-	854,095,309	3,184,038,031	
Other liabilities	-	-	-	-	-	51,513,601	51,513,601	
Statistical provision	-	-	-	-	-	20,076,958	20,076,958	
Shareholders' equity	-	-	-	-	-	1,255,268,204	1,255,268,204	
Total	2,417,914,476	-	5,421,405	31,015,103	-	2,181,080,836	4,635,431,820	
Gap	(1,113,142,078)	789,224,208	159,196,772	305,704,292	1,011,831,717	(1,152,814,911)	-	

	Up to 1 month	31 December 2005				Over 1 year	Non interest bearing	Total
		1 to 3 Months	3 to 6 months	6 to 12 months				
Assets								
Cash balance and Central Bank	237,201,415	-	-	-	-	427,663,209	664,864,624	
Due from banks	631,290,414	651,699,541	-	-	-	192,343,551	1,475,333,506	
Due from financing activities	267,432,934	433,805,811	161,405,735	167,198,407	603,659,844	-	1,633,502,731	
Investments securities	-	1,564,488	-	-	103,446,189	2,911,288	107,921,965	
Other assets	-	-	-	-	-	41,338,263	41,338,263	
Fixed assets	-	-	-	-	-	118,175,402	118,175,402	
Total	1,135,924,763	1,087,069,840	161,405,735	167,198,407	707,106,033	782,431,713	4,041,136,491	
Liabilities and equity								
Due to banks and FI	82,871,646	25,364,253	-	-	-	222,584	108,458,483	
Customer accounts	1,694,052,847	-	-	-	14,267,730	819,509,261	2,527,829,838	
Other liabilities	-	-	-	-	-	44,176,968	44,176,968	
Statistical provision	-	-	-	-	-	16,196,558	16,196,558	
Shareholders' equity	-	-	-	-	-	1,344,474,644	1,344,474,644	
Total	1,776,924,493	25,364,253	-	-	14,267,730	2,224,580,015	4,041,136,491	
Gap	(640,999,730)	1,061,705,587	161,405,735	167,198,407	692,838,303	(1,442,148,302)	-	

23. Fair Value disclosures

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Because no market exists for a significant portion of the Bank's financial instruments, except for investment securities and investment property as disclosed in note 5 and note 8, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, and risk characteristics of various financial instruments that are readily marketable.

The fair value of the investment security based on quoted market rates is Lek 91,572,802 at 31 December 2006 (2005: Lek 100,443,598) while its carrying value is Lek 94,065,447 (2005: Lek 103,446,189).

In general, the Bank's balance sheet financial instruments have an estimated fair value approximately equal to their book value due to either short-term nature or underlying interest rates that approximate market rates. The majority of financial monetary instruments are either at floating rates of interest or are subject to reprising within a year.

24. Subsequent events

Subsequent to year end, Albanian Ministry of Finance intended to sell its 40% shareholding in the Bank. No proceeding has yet been started by the Bank or Albanian Ministry of Finance.